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July 5, 2002

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Marlene H. Dortch

Secretary

Federal Communications Commission

445 12th Street, SW – Room TW-A325

Washington, D.C. 20554

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

**EX PARTE OR LATE FILED**

**REDACTED -- FOR PUBLIC INSPECTION**

**Re: Ex Parte Notice – Consolidated Application of EchoStar  
Communications Corporation, General Motors Corporation and  
Hughes Electronics Corporation for Authority to Transfer Control, CS  
Docket No. 01-348**

Dear Ms. Dortch:

In accordance with Section 1.1206 of the Commission's Rules, 47 C.F.R. §1.1206, EchoStar Communications Corporation ("EchoStar"), Hughes Electronics Corporation ("Hughes") and General Motors Corporation ("GM"), Applicants in the above-referenced merger proceeding, submit this letter to report that representatives of the Applicants met with members of the Commission staff on July 3, 2002. The meeting was focused on the synergy benefits projected to flow from the proposed merger of EchoStar and Hughes.

Representatives of the Applicants present at the meeting included David Goodfriend, Jason Kiser, Michael McDonnell, and Michael Schwimmer of EchoStar, Merrill Spiegel, Michael Palkovic and Stephanie Campbell of DIRECTV, Inc. ("DIRECTV"), Larry Hunter of Hughes Electronics Corporation ("Hughes") William Slowey of GM, and outside counsel and consultants for the Applicants. FCC staff members who attended the meeting included Barbara Esbin, Marcia Glauberman, Adam Candeub, Timothy May, William Cox, and Rosalee Chiara of the Media Bureau; Jim Bird, Neil Dellar, Harry Wingo, Joel Rabinovitz and C. Anthony Bush of the Office of the General Counsel; Donald Stockdale of the Office of Plans and Policy; Rodney Small of the Office of Engineering and Technology; Alexander Belinfante of the Wireline Competition Bureau; and Doug Webbink, JoAnn Lucanik, Marilyn Simon, and John Martin of the International Bureau.

As reflected in detail in the attached written materials,<sup>1</sup> the Applicants discussed the synergies model and accompanying explanation that have already been submitted to the Commission under separate cover. The model quantifies the anticipated cost and revenue synergy effects of the merger. The merger has the potential to create an enormous amount of value that will ultimately benefit consumers -- approximately \$4.8 billion in synergies annually by 2007.

<sup>1</sup> A copy of the presentation made by the Applicants is attached.

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The representatives presented estimates of cost synergies and revenue synergies resulting from the merger, and addressed the source, assumptions, timing and value of each type of projected synergy. There are five types of cost savings synergies: reduction in subscriber acquisition costs, reduction in churn, reduction in programming costs, reduction of general and administrative expenses and reduction in capital expenditures. Revenue synergies include incremental revenues from: expansion of local broadcast channels to all 210 Designated Market Areas, increased near-video on demand/pay-per-view sales, expanded HDTV offerings, increased advertising and interactive services revenue, and new broadband service offerings.

An original and one copy of this *ex parte* notice (and two copies of the attachments) are being filed with the Commission. If you have questions concerning this notice, please do not hesitate to contact the undersigned.

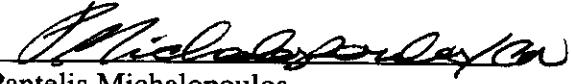
Respectfully submitted,

  
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*Counsel for Hughes Electronics  
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Corporation*

Attachment  
cc (w/ att.):

Barbara Esbin  
Marcia Glauberman  
Timothy May  
Andy Wise  
William Cox  
Kiran Duwadi  
Rosalee Chiara  
Jim Bird  
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JoAnn Lucanik  
Marilyn Simon  
John Martin  
Qualex International

**LINDA SENECAL**

**FEDERAL TRADE  
COMMISSION**

**HUGHES**

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July 3, 2002

**Overview**

**Calculation Methodology**

**Cost Synergies**

**Revenue Synergies**

**Summary**

# Synergy Descriptions

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**Cost Synergies:** merger specific savings from economies of scale and lower operating costs.

**Revenue Synergies:** merger specific revenue streams created by offering new products and services.

Synergies Create Value	
<b>Cost Synergies + Revenue Synergies</b>	= <hr/> <b>More Choice</b> <b>Better Products</b> <b>Competitive Prices</b> <hr/> <b>Customer Satisfaction</b>

# Synergy Model Background

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The combined synergy model has been through a thorough development process

- Originally developed by EchoStar to justify offer to GM
- GM / Hughes went through similar exercise
- Investment bank evaluation to complete financing
- Transition teams validated assumptions
- Range of + / - 20% established for variability

# Total Synergies (\$B)

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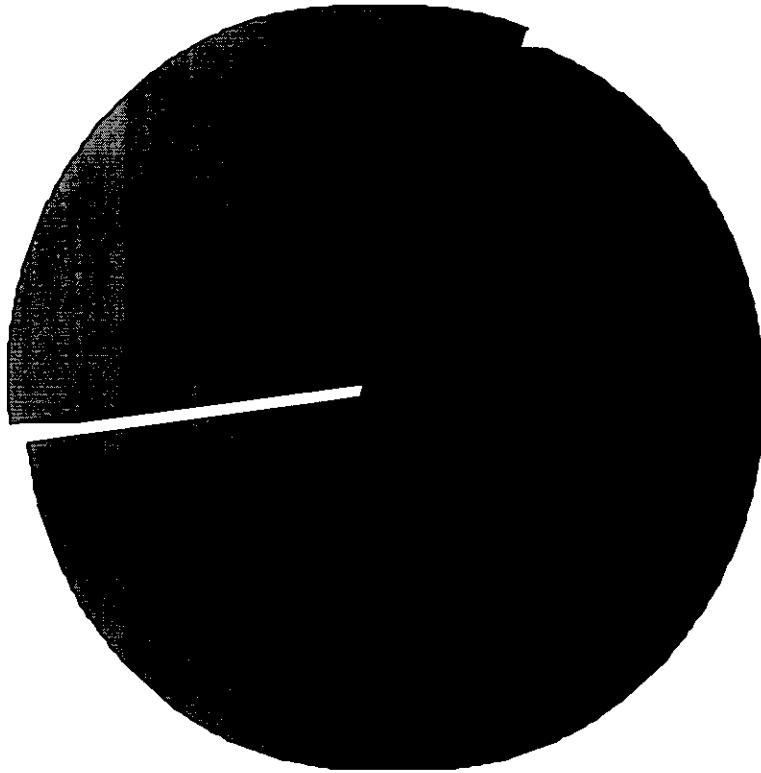
## PV of Cost Savings Synergies

Reduced SAC [ ]  
Reduced Churn  
Prog Costs  
G&A Expenses  
Cap Ex [ ]

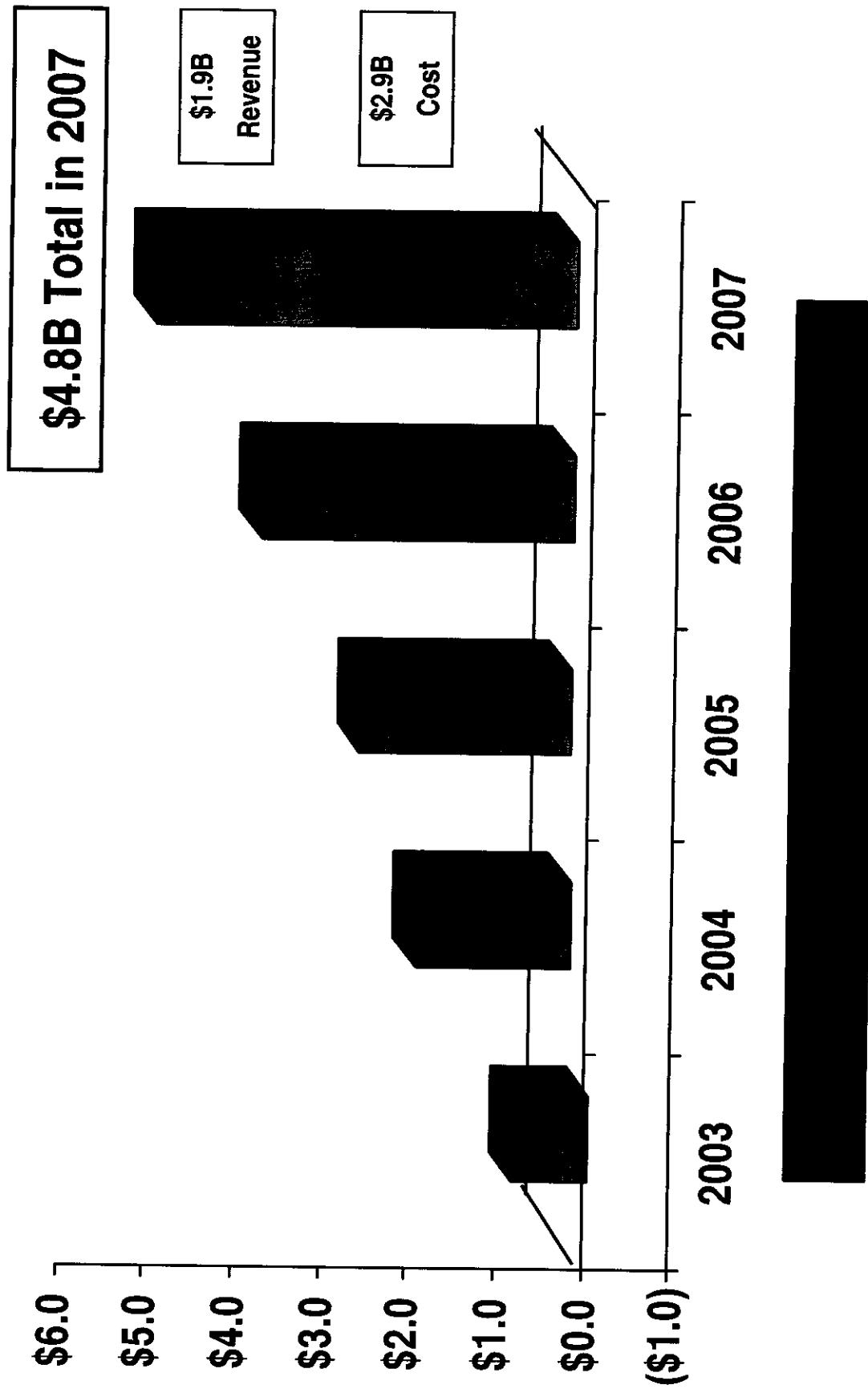
## PV of Revenue Synergies

Local Markets [ ]  
VOD / PPV  
HDTV  
Ad Sales / Interactive  
Broadband  
Box Swap [ ]

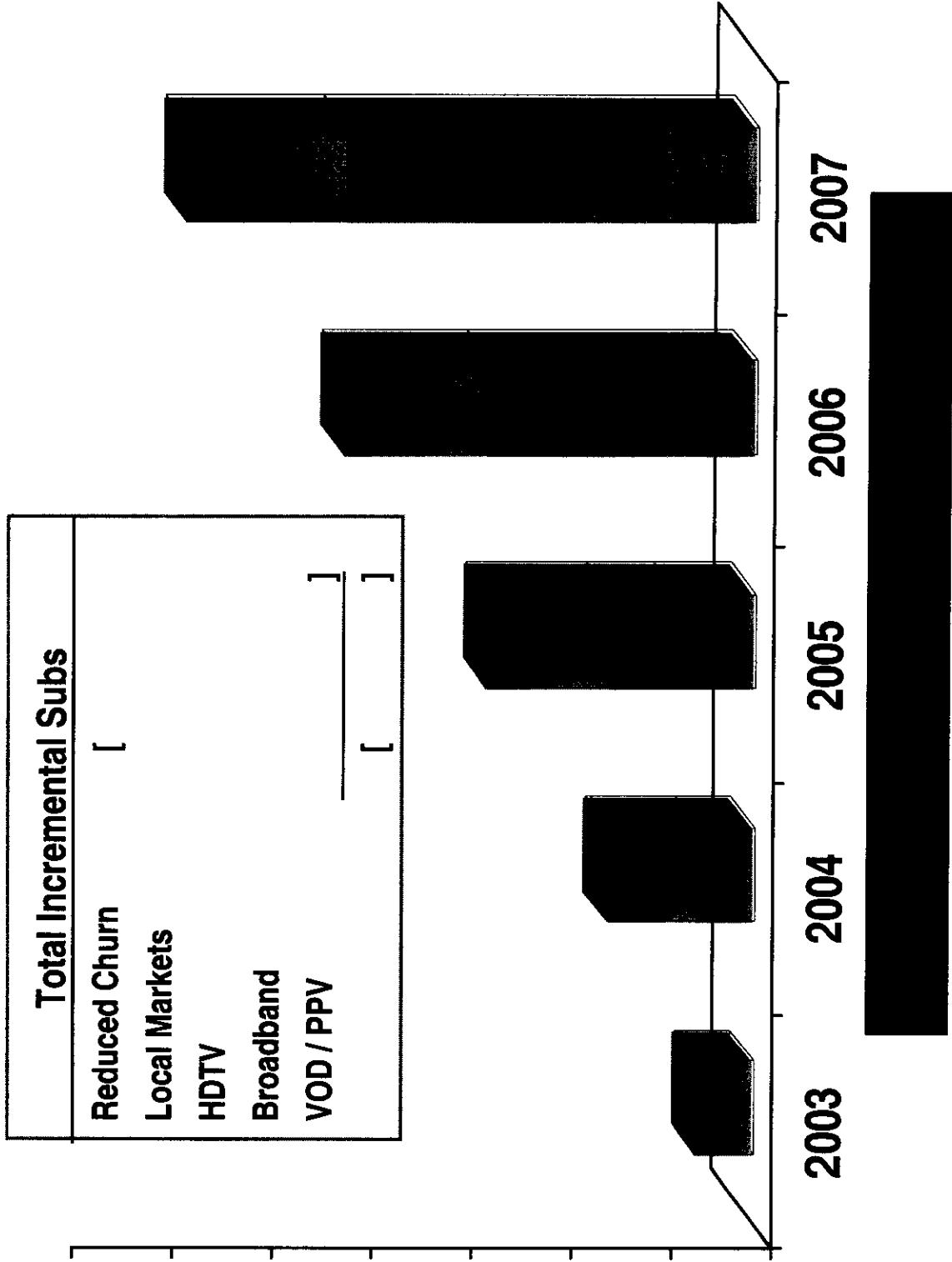
**Total Synergies = [ ]**



# Timing of EBITDA Synergies (\$B)



# Incremental Subscribers (In Millions)



Overview

Calculation Methodology

Cost Synergies

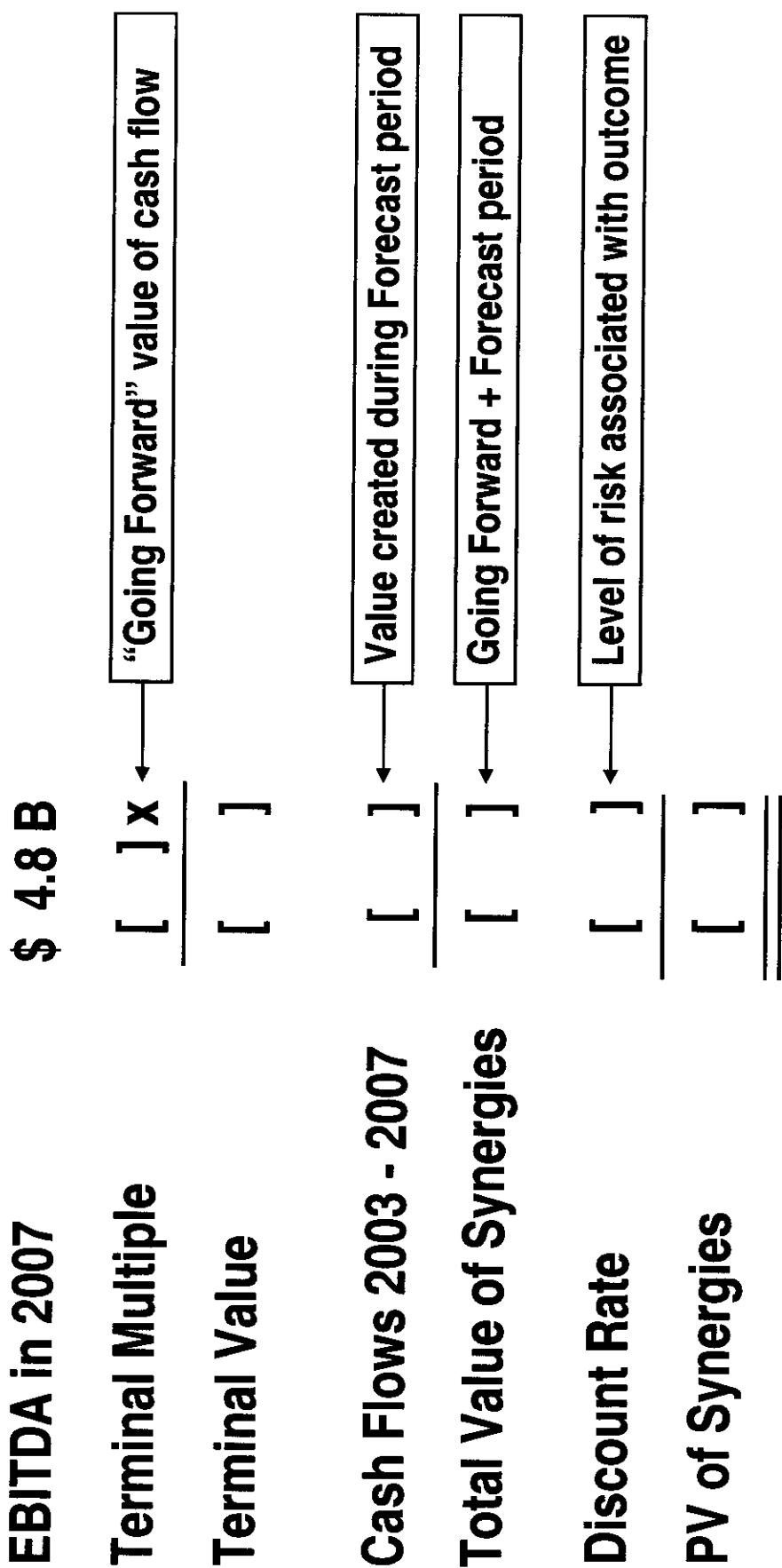
Revenue Synergies

Summary

# **Methodology - DCF Analysis**

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***DCF = valuation technique based on the present value of expected future cash flows***



# Multiple & Discount Rate Comparison

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Model	Research Estimates (1)			MSO (2)	
	EchoStar	DIRECTV			
Multiple	[ ] x	15.9 x	11.0 x	11.0 x	
Discount Rate	[ ] %	10.4%	10.0%	9.3%	

**Notes:**

(1) Research estimates: MSDW EchoStar valuation model (emailed 5/02), Deutsche Bank (Equity Research 4/1/02, 5/8/02), and SSB EchoStar valuation model (emailed 4/02).

(2) MSO's include Cox, Charter, Cablevision, Adelphia, Mediacom, and Insight Communications

# **DCF Multiple Sensitivity**

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**Total  
Synergy**

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# **DCF Discount Rate Sensitivity**

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**Total  
Synergy**

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# **Model Sensitivity Range**

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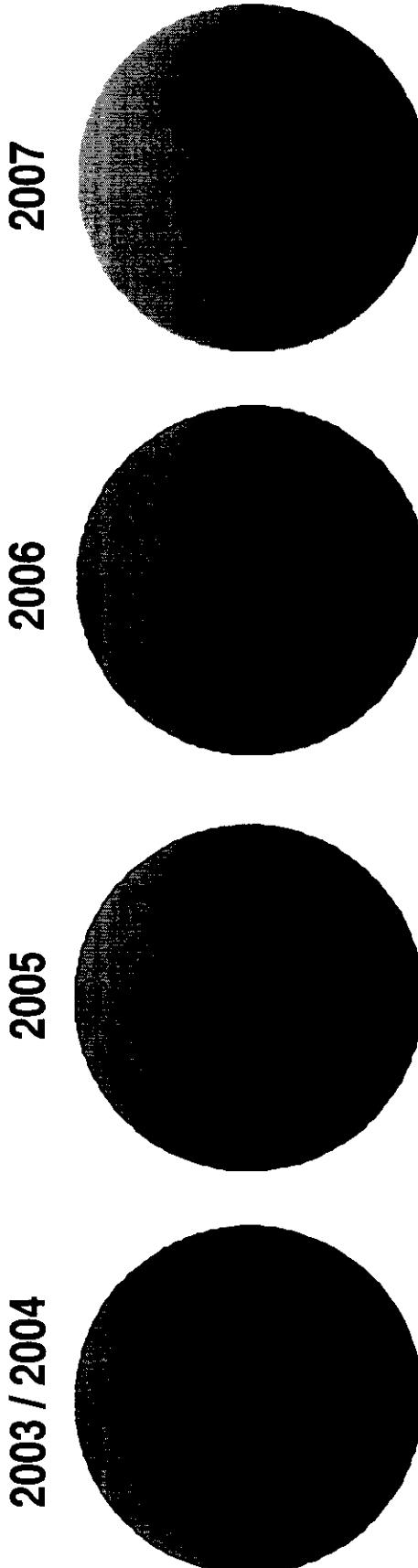
**Total  
Synergy**

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- Overview
- Calculation Methodology
- Cost Synergies
- Revenue Synergies
- Summary

# Timing of Cost Savings Synergy

*Cumulative EBITDA from Cost Saving Synergies by 2007 = [ ]*



Present Value of Cost Synergies (\$B)	
Reduced SAC	[ ]
Reduced Churn	[ ]
Prog. Costs	[ ]
G&A Costs	[ ]
Cap Ex	[ ]

# Cost Synergy: Reduced SAC

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*Reduced SAC = [ ] or [ ] of Cost Synergies*

## Financial Assumptions

- [ ] Reduction Per Gross Add
- YR 1 = 50% achieved
- YR 2 = 100% achieved

## SAC Reduction

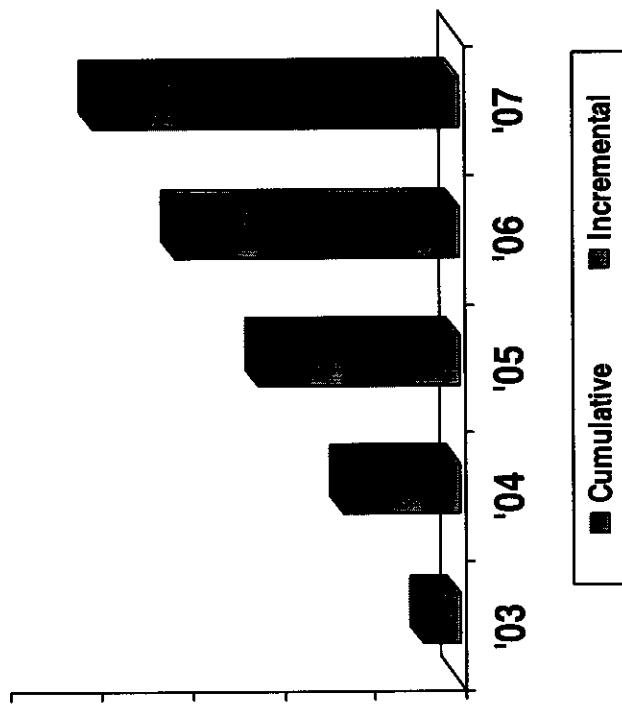
Piracy	[ ]
Installation	[ ]
Hardware Volume	[ ]
Advert. & Marketing	[ ]
Distribution Efficiencies	$\frac{1}{[ ]}$

## Business Assumptions

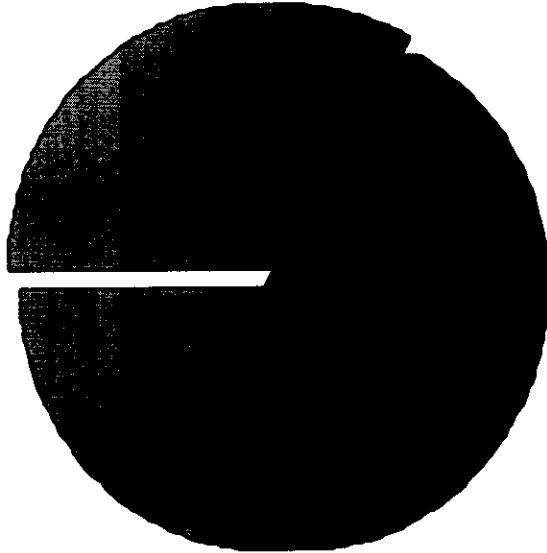
- Significantly reduce piracy
- Increased efficiency of installations
- Incremental volume discounts from manufacturers and suppliers
- Consolidation of marketing and advertising expenditures
- Increased efficiency in distribution channels

# Cost Synergy: Reduced SAC

Timing of Cash Flows (\$B)



PV of Cost Synergies



Discounted Cash Flow (\$B):

TV @ [ ] x

CF ('03 - '07)

[ ]

PV @ [ ]

[ ]

- Each incremental customer added more efficiently
- Increased incentive to grow and compete
- Dollars saved can be invested in better product offerings

# Cost Synergy: Reduced Churn

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*Reduced Churn = [ ] or [ ] of Cost Synergies*

## Financial Assumptions

- [ ] Reduction in churn
- YR 1 = 25% achieved
- YR 2 = 50% achieved
- YR 3 = 75% achieved
- YR 4 = 100% achieved

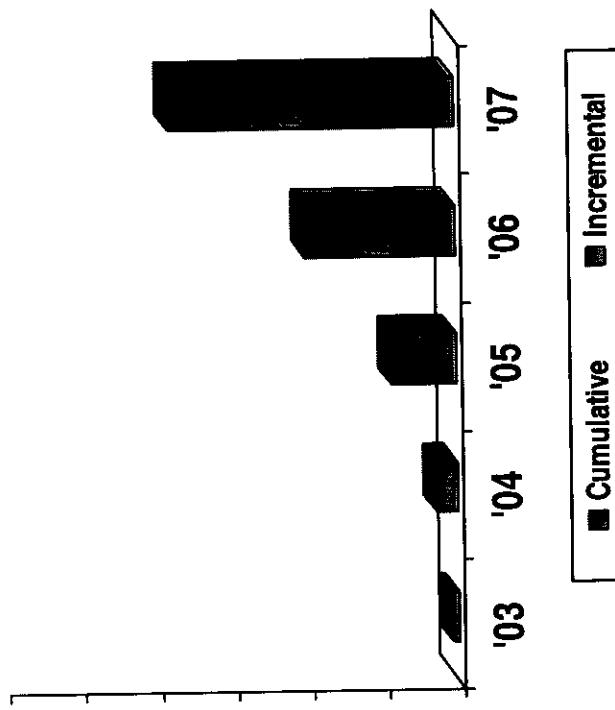
Churn Reduction	
Local Availability	[ ]
Other Enhancements	[ ]

## Business Assumptions

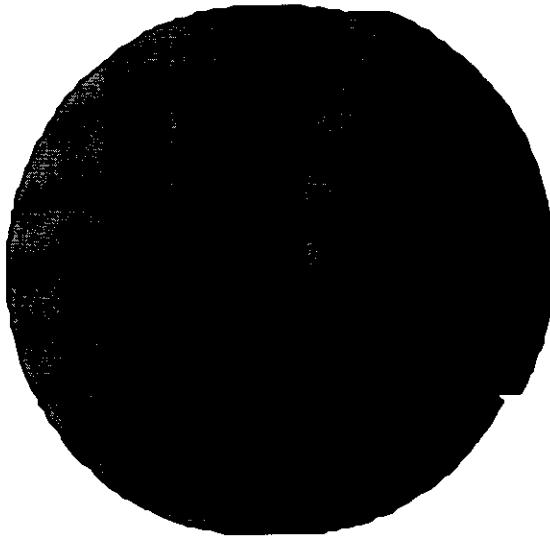
- Local into Local service in all 210 DMAs by 2005
- Other enhancements:
  - Bundled Broadband product
  - Enhanced HDTV, VOD/PVR, PPV, and increased interactivity
  - Reduced piracy through application of best technologies
  - Whole house solution more cost effective
  - Best practices at call centers, service centers, and on installations

# Cost Synergy: Reduced Churn

Timing of Cash Flows (\$B)



PV of Cost Synergies



Discounted Cash Flow (\$B):

TV @ [redacted]	[redacted]
CF ('03 - '07)	[redacted]
PV @ [redacted]	[redacted]

- [redacted] incremental subscribers
- Better customer satisfaction
- Dollars saved can be invested in better products and services

# Cost Synergy: Programming

*Programming Costs = [ ] or [ ] of Cost Synergies*

## Financial Assumptions

- [ ] Reduction in Programming Costs
- YR 1 = 50% achieved
- YR 2 = 100% achieved

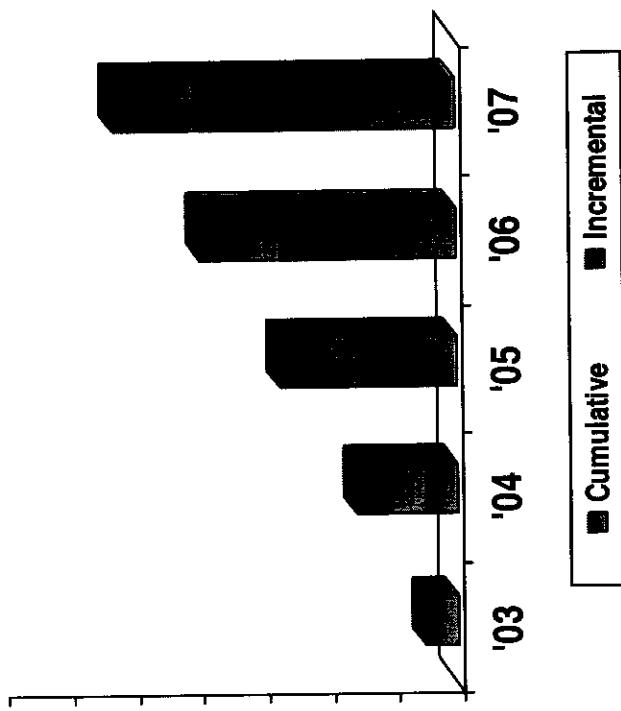
Prog. Cost Reduction
Best Contracts [ ]
Scale [ ]
Incremental Capacity [ ]

## Business Assumptions

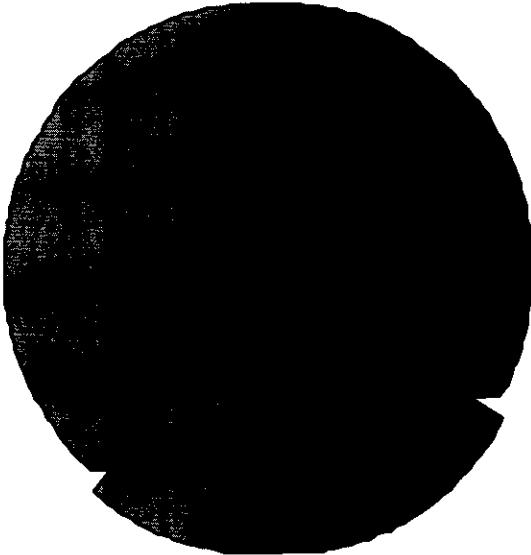
- Merged firm would pay lower rate on certain contracts
- Combined Subscriber Base will result in greater volume discounts
- New EchoStar can secure terms more comparable to Cable operators through increased critical mass and capacity
- Increased competition in programming market

# Cost Synergy: Programming

Timing of Cash Flows (\$B)



PV of Cost Synergies



Discounted Cash Flow (\$B):

TV @ [ ] x  
CF ('03 - '07)  
\_\_\_\_\_

PV @ [ ] [ ]

- More favorable contracts
- Less negotiating disadvantage
- Better content offerings

# **Cost Synergy: G&A Costs**

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**G&A Costs = [ ] or [ ] of Cost Synergies**

## **Financial Assumptions**

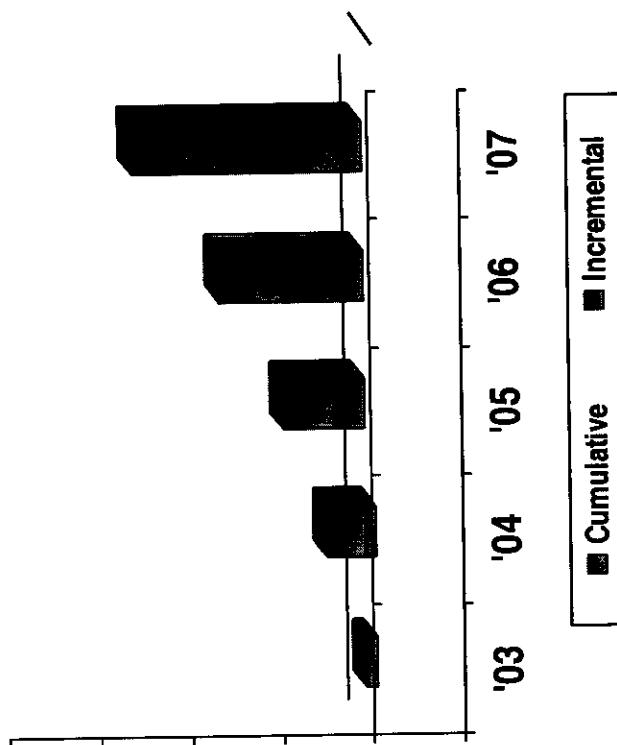
- Eliminate [ ] of Consensus DIRECTV G&A
  - YR 1 = 25.0% achieved
  - YR 3 = 50.0% achieved
  - YR 5 = 75.0% achieved
- [ ] of initial cost for Severance / Consolidation
  - [ ] / Incremental Local Market for backhaul, maintenance, & operating costs

## **Business Assumptions**

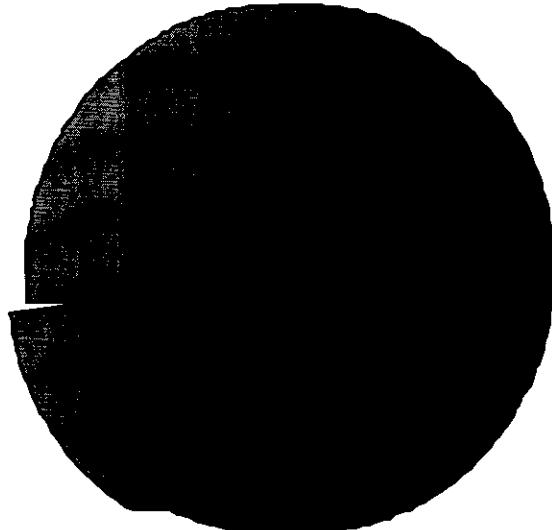
- Elimination of expenses and consolidations in the following areas:
  - Business and Broadcast Operations
  - Sales and Marketing
  - Billing and Customer Service
  - Corporate Overhead

# Cost Synergy: G&A Costs

Timing of Cash Flows (\$B)



PV of Cost Synergies



Discounted Cash Flow (\$B):

TV @ [ ] x [ ]

CF ('03 - '07)  
[ ]

PV @ [ ]

- Consolidation of operations / facilities over time

- Net savings are substantial

- One time costs incurred initially

# **Cost Synergy: Capital Expenditures**

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**Capital Expenditures = [ ] or [ ] of Cost Synergies**

## **Financial Assumptions**

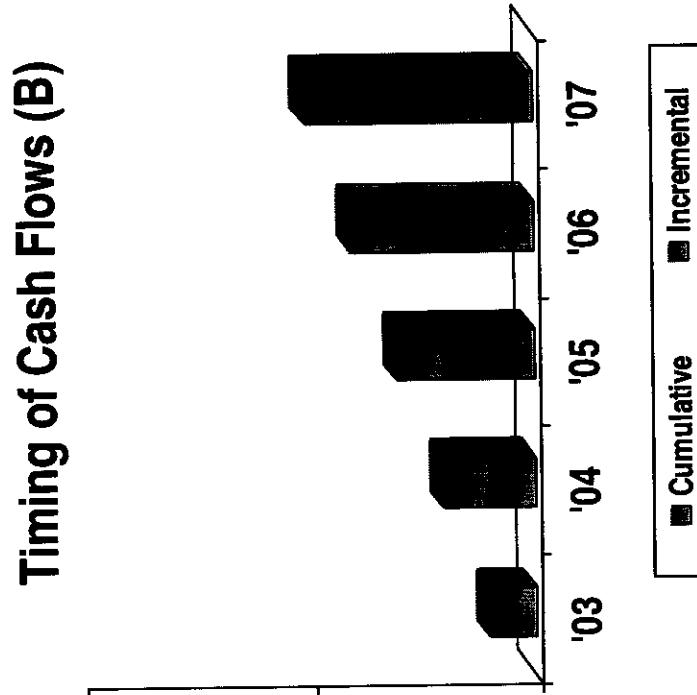
- Eliminate [ ] in capital spending by 2007
- [ ]

[ ]

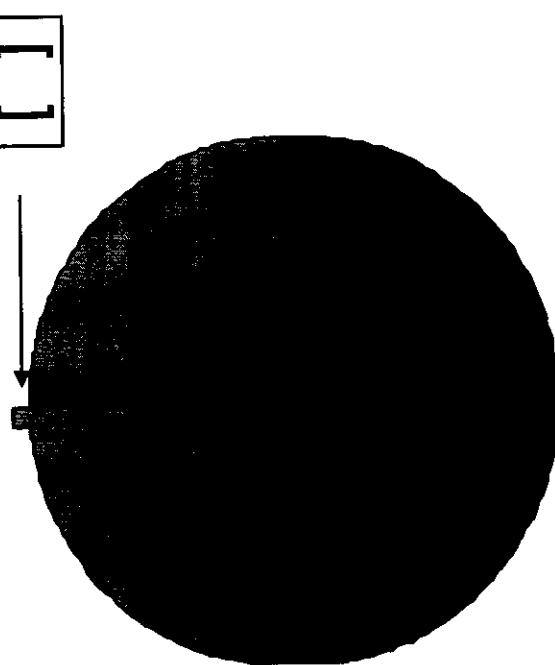
## **Business Assumptions**

- Elimination of capital expenditures in the following areas:
  - Broadcast Operations
  - Customer Service Centers
  - Duplicative Local Markets (i.e. racks, power supply, telecom gear, encoders)
  - Corporate Infrastructure

# Cost Synergy: Capital Expenditures



PV of Cost Synergies  
[ ]



Discounted Cash Flow (\$B):

TV @ [ ] x [ ]  
CF ('03 - '07)  
[ ]

[ ]  
Cumulative   Incremental

- Existing capital duplication is substantial
- Combined entity eliminates duplicative infrastructure
- Satellites and other CapEx relating to locals included as a cost in Local Synergies section

# **Cost of Achieving Synergy: Box Swap**

## **Box Swap = [ ] Cost of Revenue Synergy**

### **Financial Assumptions**

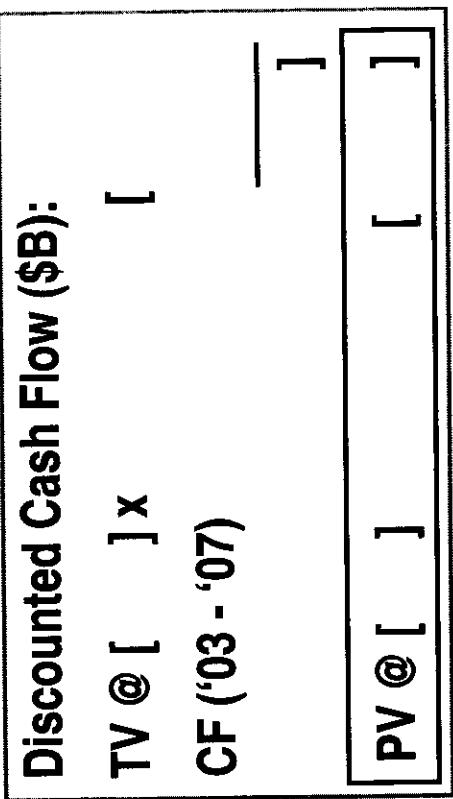
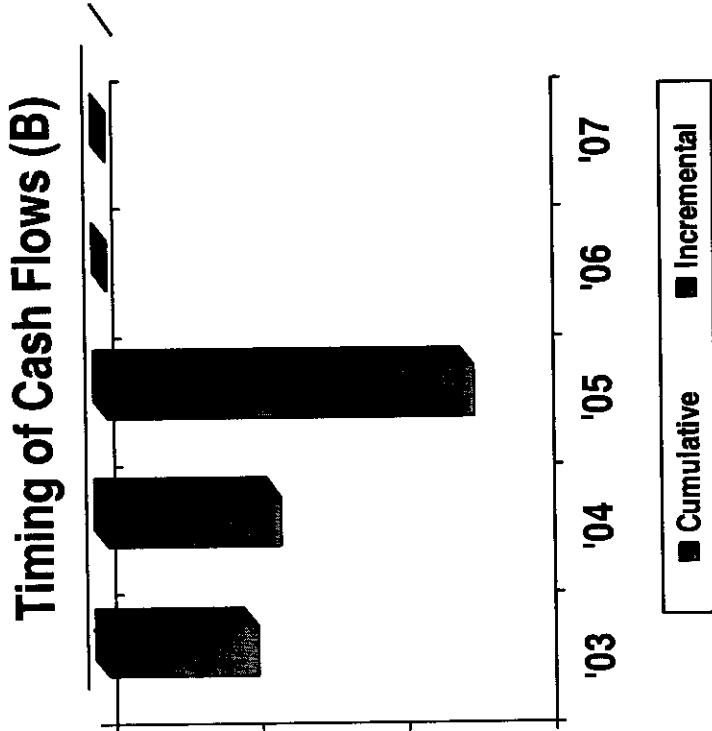
- Total customers transitioned = [ ]
- YR 1 = 38% achieved
- YR 2 = 6% achieved
- YR 3 = 56% achieved
- Average cost per customer is [ ]

Box Swap Detail	
Installation	[ ]
Primary STB	[ ]
Secondary STB	[ ]
ODU	[ ]
Customer Comms	[ ]

### **Business Assumptions**

- New customers receive boxes capable of viewing either platform
- Existing customers transitioned as needed to obtain local services
- No cost to customers
- Alternative transition plans result in similar estimated costs

# Cost of Achieving Synergy: Box Swap



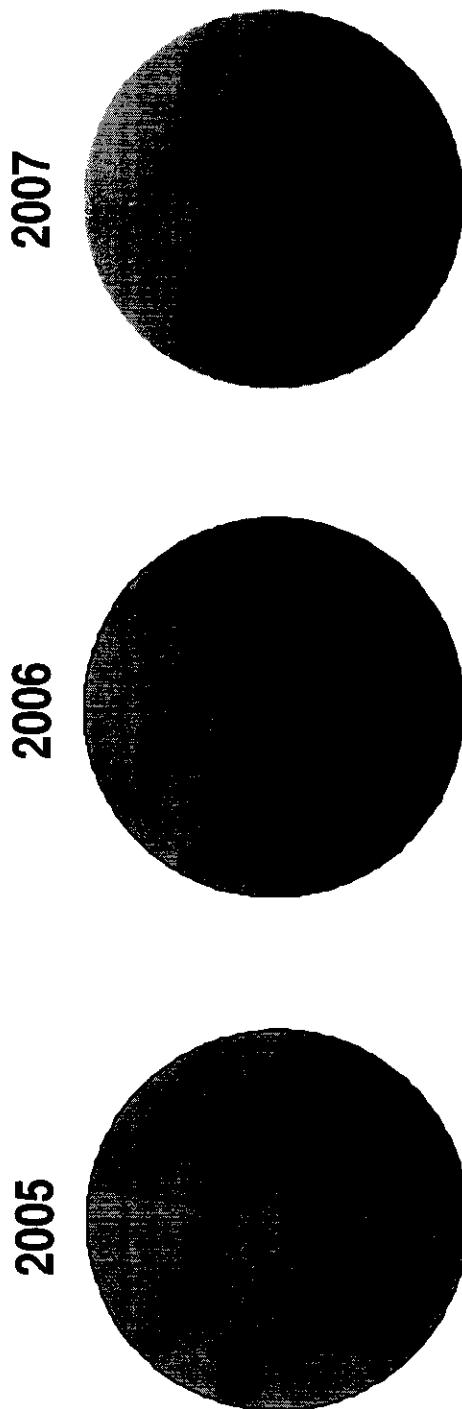
- Box swap timing follows spectrum reclamation (not linear)
- Box swaps are a necessary cost of achieving synergies
- Enables customers to receive superior product offering

- Overview
  - Calculation Methodology
  - Cost Synergies
- Revenue Synergies
- Summary

# Timing of Revenue Synergy

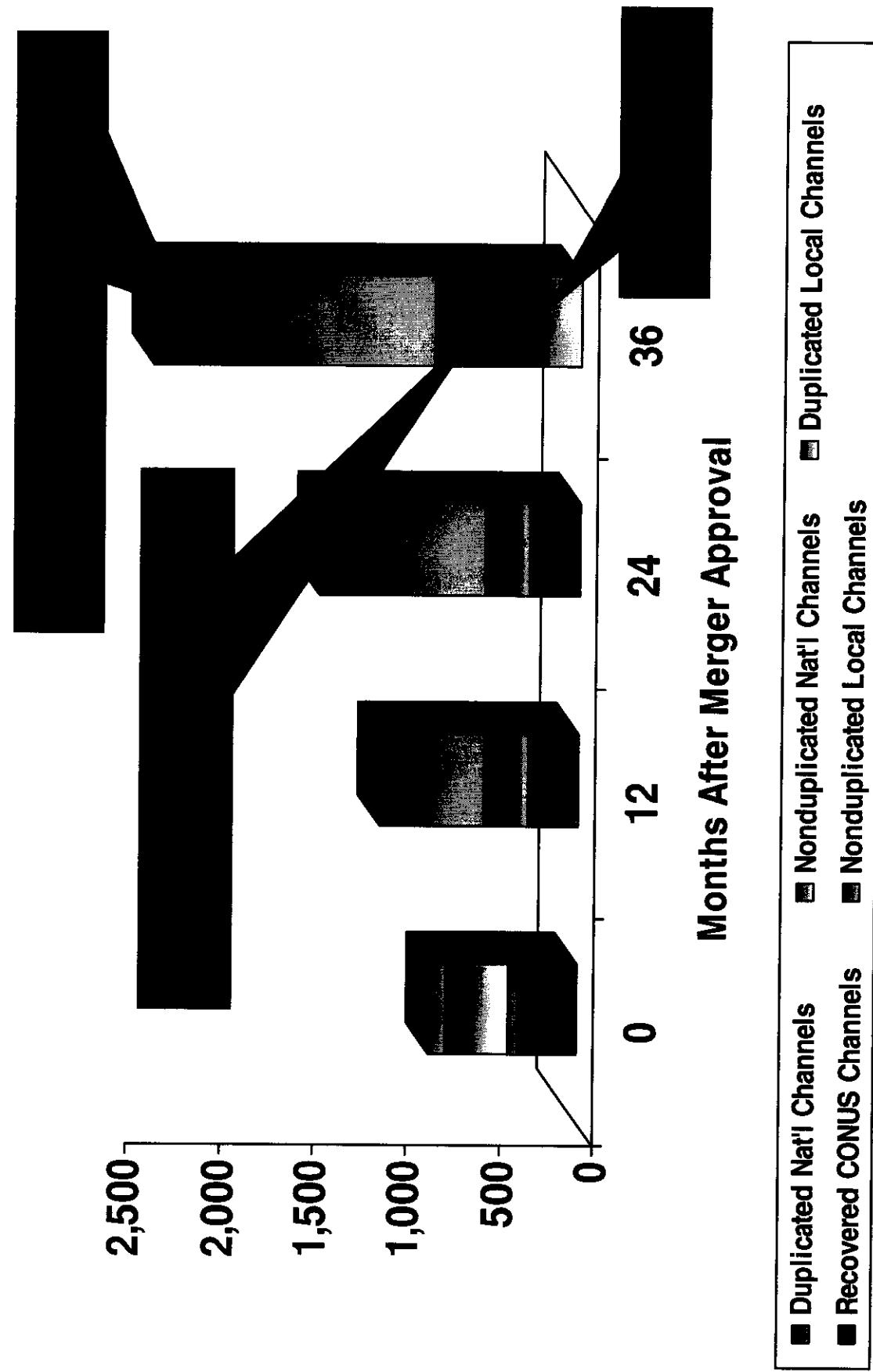
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*Cumulative EBITDA from Revenue Synergies by 2007 = [ ]*



Present Value of Revenue Synergies (\$B)	
Local Markets	[ ]
VOD / PPV	[ ]
HDTV	[ ]
Ad Sales / Interactive	[ ]
Broadband	[ ]
Box Swap	[ ]

# Spectrum Reclamation

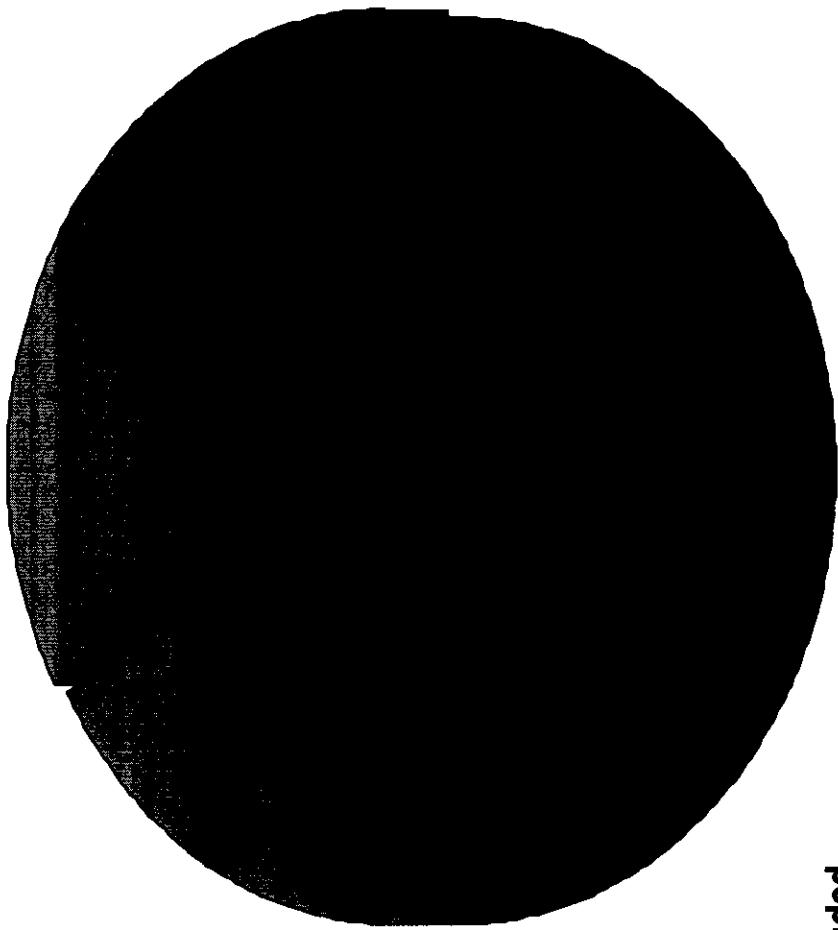


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# **Reclaimed Spectrum: 2003**

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***Estimated Allocation (approx. 3 transponders)***



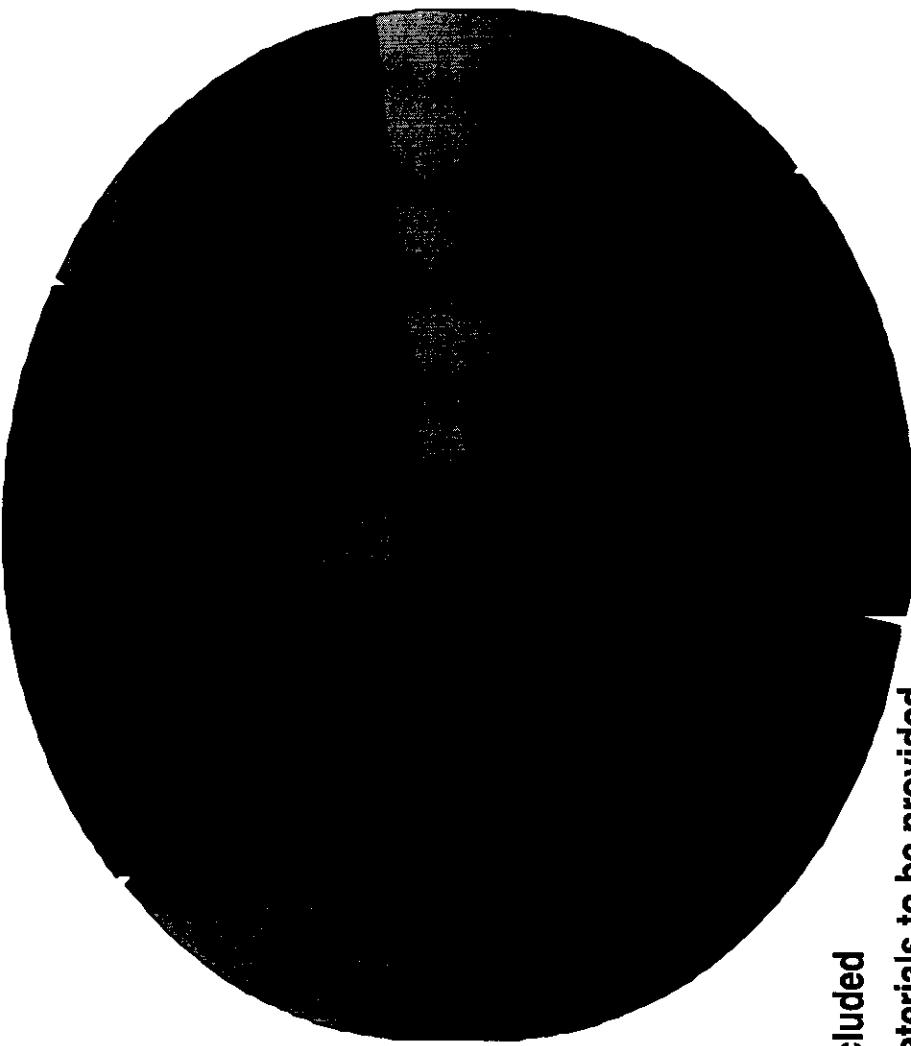
**Local Markets not included**

**Additional backup materials to be provided**

# **Reclaimed Spectrum: 2005**

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***Estimated Allocation (approx. 50 transponders)***



**Local Markets not included**

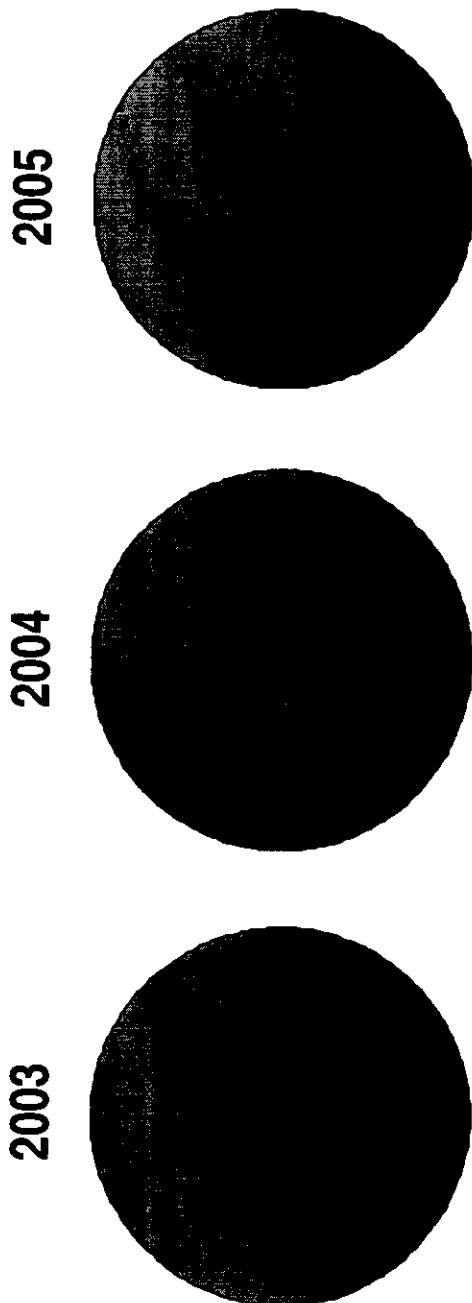
**Additional backup materials to be provided**

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# Revenue Synergy: Local Markets

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All 210 DMAs served by 2005



## DMA Assumptions:

Year	Incremental Local Markets	Cumulative Local Markets	Cumulative % H/Hs Covered
2003	30	100	86%
2004	50	150	96%
2005	60	210	100%

Nielsen Media Research: Estimates for 01-02 TV season which started 9/17/01.

# **Revenue Synergy: Local Markets**

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**Local Markets = [ ] or [ ] of Revenue Synergies**

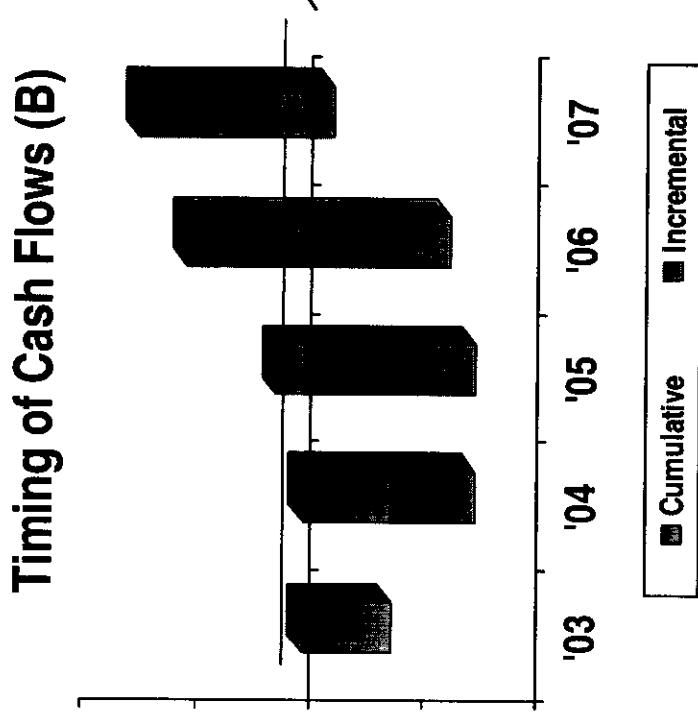
## **Financial Assumptions**

- Expansion into all 210 DMAs by early 2005
- Incremental penetration of [ ] of TV H/Hs in each incremental DMA, achieved over 3 years
- [ ] local penetration assumed for existing subs in incremental DMAs
- Price assumed of \$5.99/month; EBITDA Margin of [ ]
- New spot beam satellite of \$300 Million; [ ] of capital per new market

## **Business Assumptions**

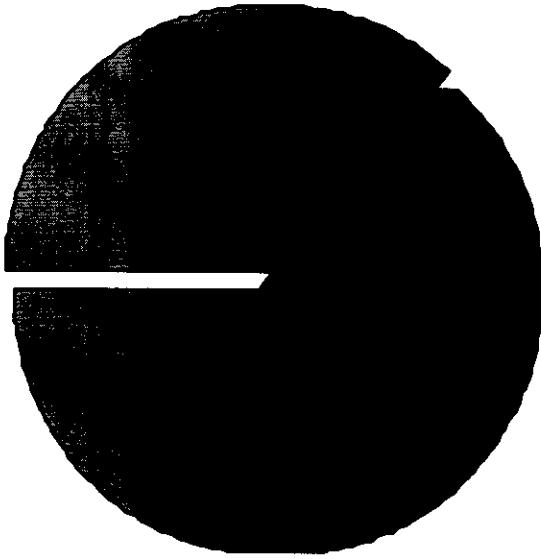
- Complete access to all local markets is vital to compete with Cable operators
- Key to continued growth and lower subscriber churn
- Universal availability allows more effective marketing of locals

# Revenue Synergy: Local Markets



- [ ] incremental subscribers
- Cash flow benefits begin in 2005

PV of Revenue Synergies



Discounted Cash Flow (\$B):

TV @ [ ] x  
CF ('03 - '07)  
[ ]  
PV @ [ ] [ ]

# Revenue Synergy: VOD / PPV

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*VOD / PPV = [ ] or [ ] of Revenue Synergies*

## **Financial Assumptions**

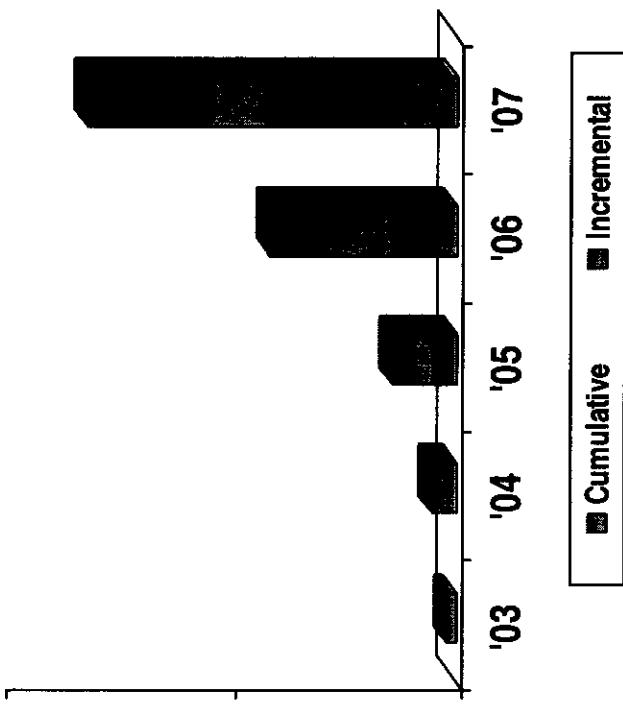
- Incremental program buys of [ ] per year, per customer, in 2003, increasing to [ ] in 2007
- Movies priced at [ ] each; EBITDA Margin of [ ]

## **Business Assumptions**

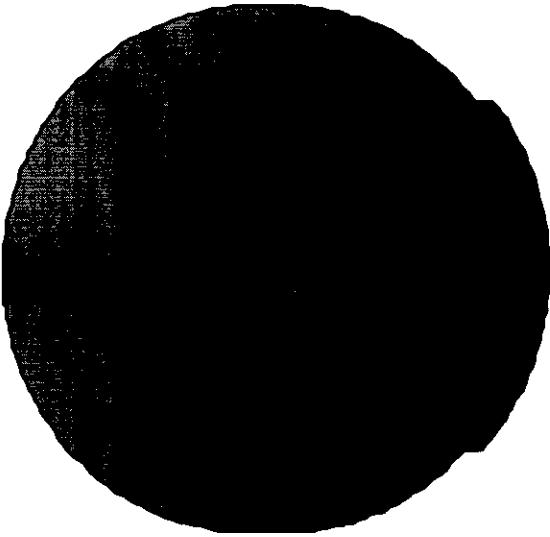
- Increased channels utilized for PPV and VOD
- Expanded titles and increased frequency of start times
- Incremental penetration of PVRs which is necessary to compete with Cable VOD
- Advanced equipment will contain hard drives for caching VOD
- Increased consumer convenience will increase ARPU and attract new subscribers
- Churn control and customer satisfaction

# Revenue Synergy: VOD / PPV

Timing of Cash Flows (\$B)



PV of Revenue Synergies



Discounted Cash Flow (\$B):

TV @ [ ] x  
CF ('03 - '07)  
\_\_\_\_\_

- [ ] incremental subscribers
- NVOD beefed up before VOD/PVR capabilities are widely deployed

PV @ [ ]  
[ ]

# Revenue Synergy: HDTV

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*HDTV = [ ] or [ ] of Revenue Synergies*

## **Financial Assumptions**

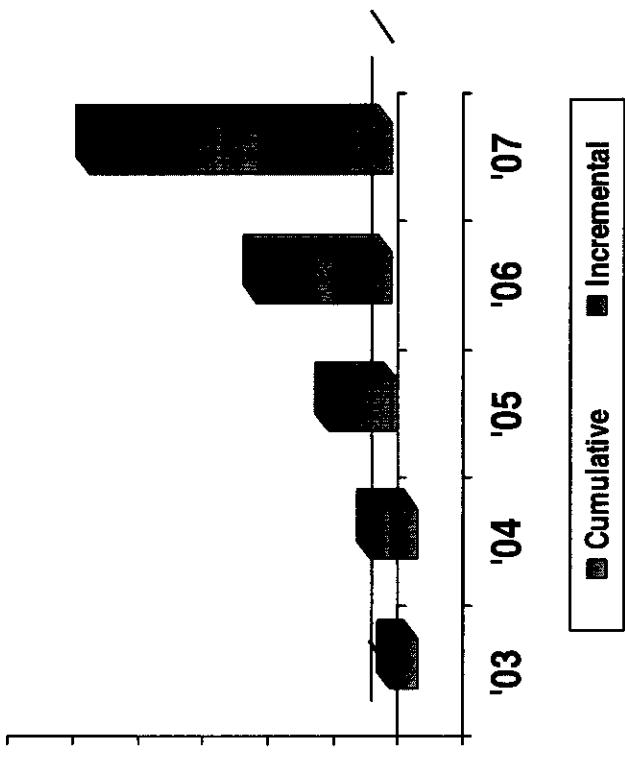
- Consumer Electronics Assoc. (CEA) projections used as a baseline for HDTV universe
- Penetration will increase from [ ] of CEA in 2003 to [ ] of CEA in 2007
- [ ] per month comparable to other premium packages
- EBITDA Margin of [ ]

## **Business Assumptions**

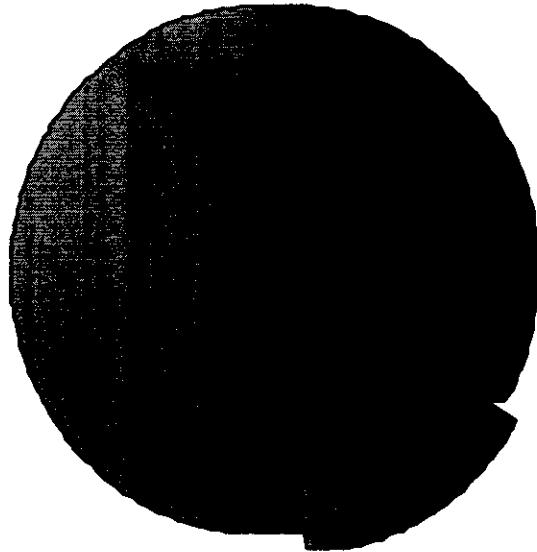
- Increased HDTV offerings from 3 channels to approximately 12 channels
- Enhanced ability to deliver HDTV will drive consumer adoption of equipment
- Consumer adoption will motivate content providers to increase HDTV production
- Robust HDTV offering necessary to differentiate from cable MSOs offerings

# Revenue Synergy: HDTV

Timing of Cash Flows (\$B)



PV of Revenue Synergies



Discounted Cash Flow (\$B):

TV @ [ ] x  
CF ('03 - '07)  
[ ]

- [ ] incremental subscribers
- Cash flow benefits begin in 2004**

# Revenue Synergy: Advertising / Interactive

*Advertising / Interactive = [ ] or [ ] of Revenue Synergies*

## Financial Assumptions

- [ ] / month / incremental subscriber; Margin of [ ]
- Benefit ramps at 25% per year **for full benefit in YR 4**
- Transitioned customers at full interactive benefit
- Existing customers at half of interactive amount

## Advertising / Interactive

Advertising  
Interactive

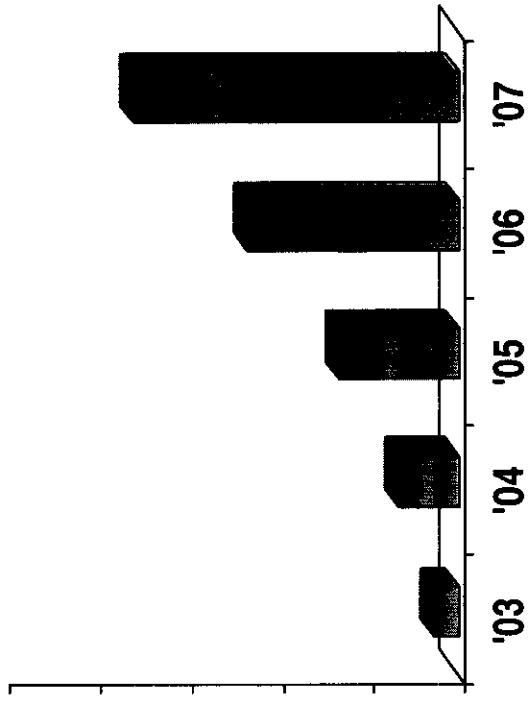
[ ]

## Business Assumptions

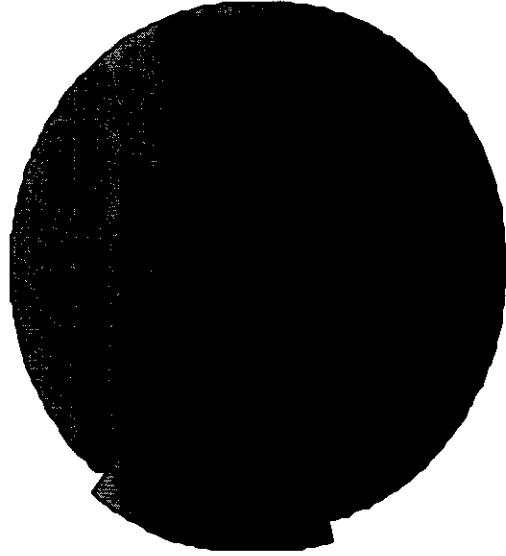
- Leverage combined base to advertisers
- New EchoStar becomes viable path for national and general market TV advertisers
- DBS needs to respond to Cable's interactive capabilities
- Expanded capacity needed for robust interactive applications
- Interactivity will introduce new revenue streams

# Revenue Synergy: Advertising / Interactive

Timing of Cash Flows (\$B)



PV of Revenue Synergies



Discounted Cash Flow (\$B):

TV @ [ ] x

CF ('03 - '07)

[ ]

[ ]

# **Revenue Synergy: Broadband**

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**Broadband = [ ] or [ ] of Revenue Synergies**

## **Financial Assumptions**

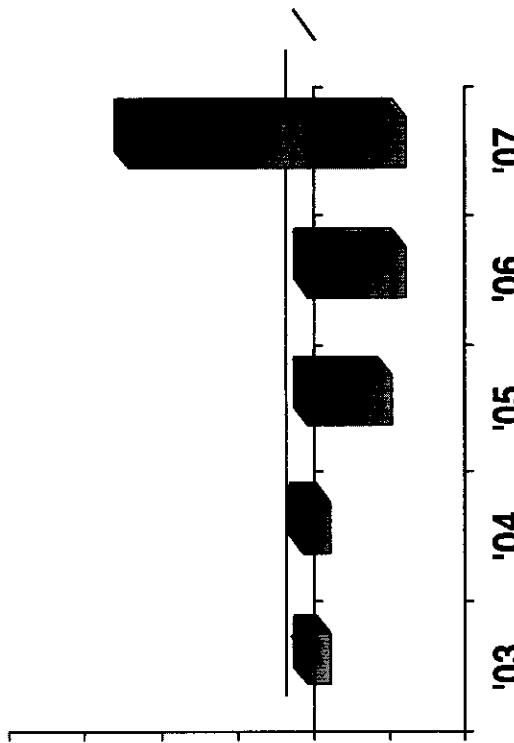
- \$50 avg. / month for Broadband only customers
- [ ] discount when bundled with video service
  - Avg. EBITDA Margin of [ ]
- Blended SAC per Broadband sub ranges between [ ] and [ ]

## **Business Assumptions**

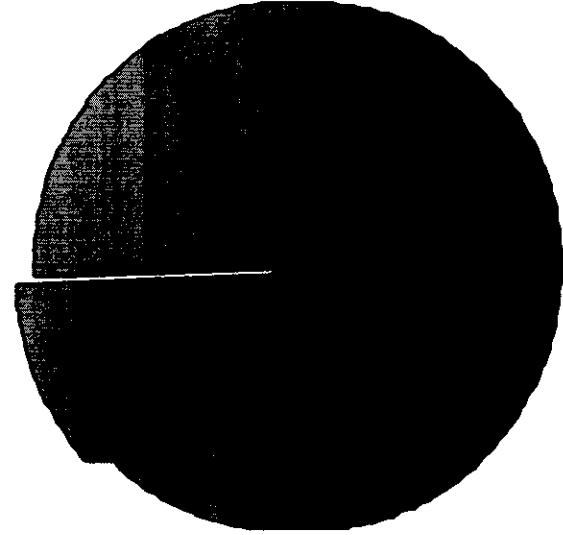
- Consolidated spectrum and economies of scale justify investment in Broadband
- Combined subscribers provide leverage and reduced risk
- Accelerated growth which is critical to competition with cable modems and DSL
- Discounted bundled product that will be attractive to consumers
  - Reduce churn

# Revenue Synergy: Broadband

Timing of Cash Flows (\$B)



PV of Revenue Synergies



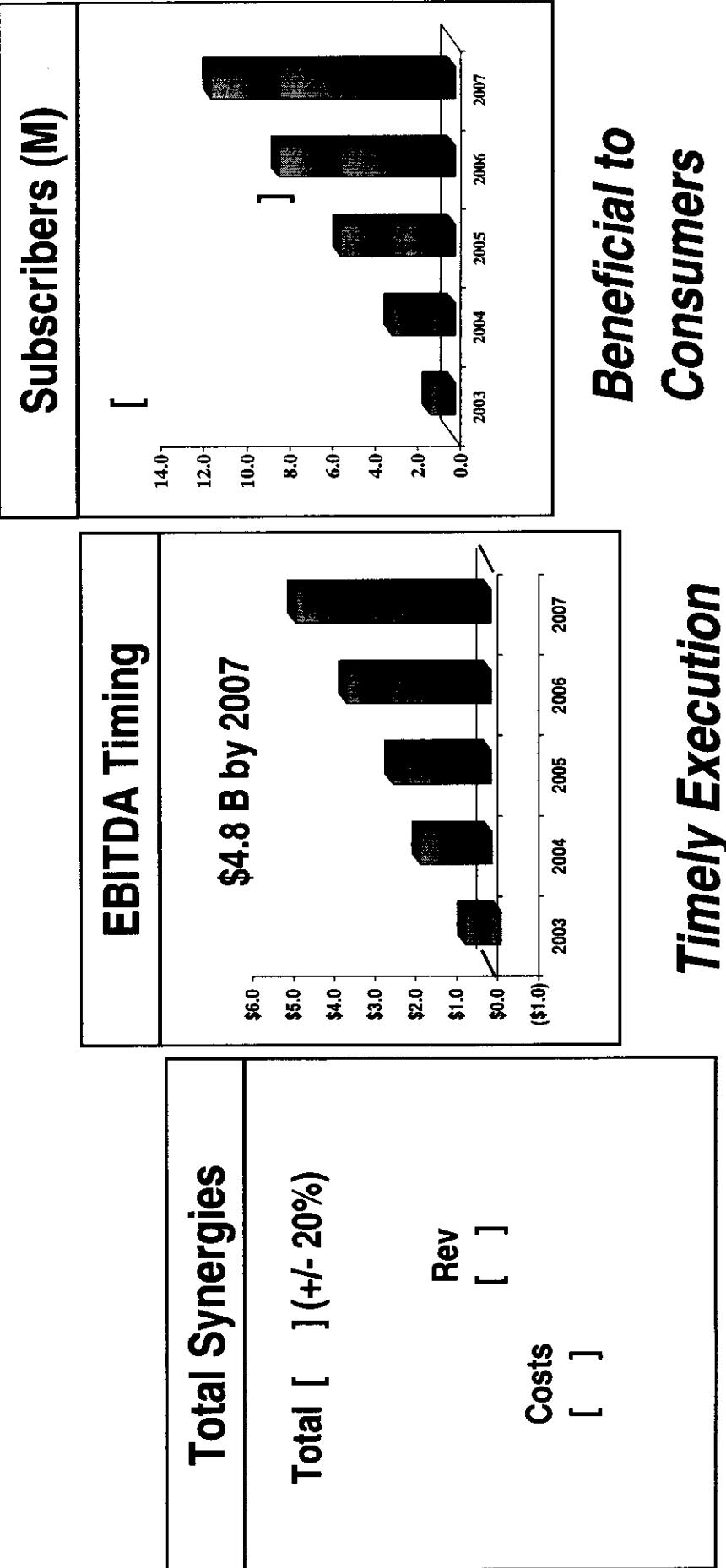
Discounted Cash Flow (\$B):

TV @ [ ] x  
CF ('03 - '07)  
\_\_\_\_\_  
PV @ [ ]

- [ ] incremental subs
- [ ] Broadband only
- [ ] video and broadband

- Overview
- Calculation Methodology
- Cost Synergies
- Revenue Synergies
- Summary

# Summary



**36M Consumers get more choice, better products & competitive prices**

**ETHUSIAR**

**HUGHES**